

Legislative Audit Division

State of Montana



Report to the Legislature

November 1996

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Office of the Secretary of State

This report contains three recommendations related to:

- ▶ **Fees commensurate with costs in the Enterprise Fund.**
- ▶ **Seeking legislation to clarify state law requiring excess Proprietary Fund type revenue be deposited in the General Fund.**
- ▶ **Cash management.**

**Direct comments/inquiries to:
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705**

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

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Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

November 1996

To the Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Secretary of State for the two fiscal years ended June 30, 1996. Included in this report are recommendations concerning fees commensurate with costs, seeking legislation to amend the law regarding reverting excess revenue to the General Fund, and cash management. The office's written response to the audit recommendations is included in the back of the audit report.

We thank the Secretary of State and his staff for their assistance and cooperation.

Sincerely,

"Signature on File"

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Office of the Secretary of State

Members of the audit staff involved in this audit were Pete Brustkern, Renee Foster, Geralyn Hoffman, and Jim Manning.

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Elected and Administrative Officials

Office of the Secretary of State

Mike Cooney	Secretary of State
Angela Fultz	Chief Deputy
Garth Jacobson	Chief Legal Counsel
Gary Managhan	Deputy for Fiscal Affairs
Kathy Lubke	Deputy for Administrative Rules
Joe Kerwin	Deputy for Elections
Ed Eaton	State Records Manager
Gregg Wheeler	Deputy for Information Services
Lynn Keller	Deputy for Personnel and Operations Manager for Records Management
Rose Ann Crawford	Operations Manager for Business Services
LesLee Shell-Beckert	Deputy Assistant

Report Summary

Office of the Secretary of State

This audit report is the result of our financial compliance audit of the Office of the Secretary of State for the two fiscal years ended June 30, 1996. The report contains three recommendations where the office could enhance compliance with state laws and policies.

The first recommendation discusses the need to develop a system to document individual service fees charged to businesses and individuals are commensurate with costs of providing the service. The office could not provide support to document the individual fees for each type of service were commensurate with the cost to perform the service as required by state law.

The second recommendation discusses the need to clarify section 2-6-103, MCA. The law currently requires the office to deposit into the General Fund from the Proprietary Fund types, any revenue collected in the prior year in excess of the current year's appropriation. Beginning in fiscal year 1995-96, the office is not required to have appropriations for expenses in its Proprietary Funds. Since there is no current year appropriation in fiscal year 1995-96, the law could not be implemented.

The final recommendation discusses cash management and the need to continue to improve procedures to deposit receipts promptly in compliance with state law. This issue was the single prior audit recommendation directed to the office. The office partially implemented this recommendation.

Office management concurred with all recommendations.

We issued an unqualified opinion on the financial schedules contained in the report. This means the reader may rely on the presented financial information. The source data on the Statewide Budgeting and Accounting System (SBAS) is also reliable.

Report Summary

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the office develop a system to document individual service fees are commensurate with costs of providing the service.	7
	<u>Office Response:</u> Concur. See page B-3.	
<u>Recommendation #2</u>	We recommend the office seek legislation to clarify state law requiring excess Proprietary Fund revenue to be deposited in the General Fund.	8
	<u>Office Response:</u> Concur. See page B-3.	
<u>Recommendation #3</u>	We recommend the office continue to improve its cash management procedures in order to comply with state depositing laws.	9
	<u>Office Response:</u> Concur. See page B-4.	

Introduction

Introduction

We performed a financial-compliance audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 1996. The audit objectives were to:

1. Determine office compliance with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal controls of the office.
3. Determine if the financial schedules present fairly the results of operations of the office for the two fiscal years ended June 30, 1996.
4. Determine the implementation status of prior audit recommendations.

This report contains three recommendations to the office. These recommendations address areas where the office can improve compliance with state laws and regulations. Areas of concern not having a significant effect on the successful operations of the office are not included in this report, but have been discussed with management.

In accordance with section 17-8-101, MCA, we reviewed the Internal Service Fund fees, charges for services and fund equity balance. Based upon our review, nothing came to our attention to indicate the office is not in compliance with the law requiring fees to be commensurate with costs. Although not required by law, we also reviewed fees for the Enterprise Fund. As discussed on page 5, we noted the office needs to develop a system to document if the fees are commensurate with costs.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Introduction

Background

The Office of the Secretary of State is established by Article VI, Section 1, of the Montana Constitution. Title 2, chapter 15, part 4, of the Montana Code Annotated (MCA) sets forth the Secretary of State's duties. The office files, stores, maintains, and preserves permanent records of the state and certain public interest records of private citizens. The office publishes the Montana Administrative Register (MAR) and the Administrative Rules of Montana (ARM).

The Secretary of State serves as chief election officer for the state, and as such maintains uniformity in the application of the election laws and retains election records through the Elections Bureau within the office. In addition, the Secretary of State serves as a member of the Board of Land Commissioners and the Board of Examiners.

Currently, the office operates with eight of its employees exempt from the provisions of the statewide classification plan. For all of its functions, the office had 41.8 authorized full-time equivalent positions during fiscal year 1995-96.

Prior Audit Recommendation

Prior Audit Recommendation

We performed the prior audit of the Office of the Secretary of State for the two fiscal years ended June 30, 1994. The report contained one recommendation related to cash management which is not fully implemented and is discussed on page 8 of this report.

Findings and Recommendations

State Compliance

We reviewed selected state laws and policies applicable to the office. The following sections discuss areas where office management could enhance compliance with state laws and policies.

Fees Commensurate with Costs

The office uses an Enterprise Fund to account for fees and charges for providing services to businesses and individuals outside of state government. The office is required by state law to establish fees commensurate with costs for filing corporate articles and annual reports, copying documents, priority handling and filing uniform commercial code financial information. The office could not provide support to document the fee related to each of these services was commensurate with the cost to perform the service.

The following is a list of laws requiring specific fees to be commensurate with the costs of processing documents and providing services.

- Section 35-8-211, MCA, applies to the Montana Limited Liability Company Act
- Section 35-2-1003, MCA, applies to Non-profit Corporations,
- Section 35-1-1206, MCA, applies to Business Corporations.
- Section 35-12-521, MCA, applies to Limited Partnerships.
- Section 30-13-320, MCA, applies to Assumed Business Names, Trademarks and Related Rights.
- Section 30-9-403, MCA, applies to Uniform Commercial Code.

Office management said they track fees and costs on an overall basis but do not have a system in place to track each fee and the associated costs to perform the related service. Office management said they have developed an allocation system to distribute personnel services costs. They also have reorganized financial activity recorded on the state's accounting records in fiscal year 1995-96 to allow better tracking of fees and costs. However, since documentation was not available on an individual fee basis we could not determine if the

Findings and Recommendations

fees referenced above are commensurate with costs as required by state law. Without a system in place to track fees and the related costs, customers may be paying too much or too little for the services provided by the office.

The specific laws referenced above require certain Enterprise Fund fees to be commensurate with costs. However, sections 2-6-103 and 35-1-1207, MCA, establish filing and copying fees related to public records and sets the corporate license fees. These two laws do not necessarily establish fees commensurate with costs. Because the fees are set in statute and the office has no documentation to determine if these fees are commensurate with costs, other fees may have to subsidize the costs if these fees are less than the cost of providing the service. If the fees are higher than the costs of providing the services, a profit will be generated. Since other fees in the Enterprise Fund are to be commensurate with costs, the office should also determine and document if all fees adequately cover the costs of performing the services.

The office also provides services to the public but collects little or no fee for these services. The expenses associated with these services are recorded in the Enterprise Fund and include costs related to the Land Board, elections duties, and legislative actions and assistance. These services are significant to the total expenses of the office but little revenue is collected to offset these costs. Office management stated other fees subsidize these services.

The office should develop a system to document the relationship of fees to the costs of processing the documents and providing the services. Since the office already has an allocation process for personnel services costs the additional documentation to demonstrate fees are commensurate with costs should not take significant additional personnel time. Once the office has determined which fees are commensurate with cost they may have to increase or decrease fees for some services. In the case where services are provided but clearly the fees do not cover costs the office needs to get legislative direction as to the proper funding source for those expenses.

Findings and Recommendations

Recommendation #1

We recommend the office develop a system to document individual service fees are commensurate with costs of providing the service.

Clarify the Law for Depositing Excess Revenue in the General Fund

Section 2-6-103, MCA, requires the office to deposit into the General Fund from the Proprietary Funds (Enterprise and Internal Service Funds) any revenue collected during the prior fiscal year in excess of the current year's appropriation. The office transferred approximately \$441,000 of excess revenue from fiscal year 1993-94 to the General Fund during fiscal year 1994-95. The office was not required to transfer excess revenue to the General Fund from fiscal years 1994-95 and 1995-96. Beginning in fiscal year 1995-96 the office is not required to have appropriations for expenses in the Proprietary Funds. Since there are no current year appropriations in fiscal year 1995-96 the law could not be implemented because there is no basis to define excess revenue.

Office management stated they believe the legislature intended for the office to adopt the management efficiencies and benefits inherent in long term planning. They also said this approach to Enterprise Funds allows for the accumulation of resources over a business cycle longer than one year and allows the expenditure of accumulated resources. Office management stated they will use the Enterprise Fund 1995-96 fiscal year-end fund balance of approximately \$600,000 to cover the costs associated with the development of a new computer program and to upgrade office procedures. Office personnel said the Enterprise Fund fund balance should be almost depleted by fiscal year 1998-99.

State law needs to be clarified. As noted in the previous section if fees are to be commensurate with cost then there would not be any excess revenues to transfer. If the intent of the legislature is to have excess revenue transferred to the General Fund then a basis of determining excess revenue should be established.

Findings and Recommendations

Recommendation #2

We recommend the office seek legislation to clarify state law requiring excess Proprietary Fund revenue to be deposited in the General Fund.

Cash Management

The office collects fees for services which include filing domestic and foreign corporate reports, trademarks, assumed business names, uniform commercial code, and agricultural liens. These fees range from \$.25 to \$1,000 and generated approximately \$1.6 million in revenue for the Enterprise Fund each fiscal year of the audit period. In prior audits we recommended the office deposit receipts in compliance with cash depositing laws. State law requires all moneys be deposited daily when the accumulated amount of collections exceeds \$100 cash or total receipts are greater than \$500. At a minimum, deposits should be made at least weekly.

To help address a prior audit recommendation, the office intends to contract with an outside company to handle the large volume of annual reports. Annual corporate report filings represent approximately 50 percent of the collections in the Enterprise Fund and are received from January through April. Because of the large number of these report filings during a short period of time the office is not able to deposit collections in a accordance with state law.

During our current audit we tested eight deposits made outside of the annual corporate report filing period and noted all of them contained receipts that were not deposited timely. Office management stated the current office computer system does not allow collections to be input when the accompanying documentation is processed. Instead, agency personnel input collection data on a separate spreadsheet or track it manually for depositing purposes. To address these problems, the office is developing a new computer system which will allow office personnel to input collection data and deposit the collections before the accompanying documentation is processed. This new system should be in place by December 1996

Findings and Recommendations

and should handle approximately 24 percent of total revenue recorded in the Enterprise Fund.

The office has made progress towards managing cash and depositing receipts. However, the improvements will affect only 74 percent of Enterprise Fund revenue. The office should ensure all receipts are deposited in accordance with state law since untimely deposits increase the risk of loss or theft and reduce investment income.

Recommendation #3

We recommend the office continue to improve its cash management procedures in order to comply with state depositing laws.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Office of the Secretary of State for each of the two fiscal years ending June 30, 1995 and 1996, as shown on pages A-5 through A-14. The information contained in these schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial schedules, the office's financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the office for each of the two fiscal years ending June 30, 1995 and 1996, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

"Signature on File"

James Gillett, CPA
Deputy Legislative Auditor

August 14, 1996

SECRETARY OF STATE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund
FUND BALANCE: July 1, 1994	\$ 0	\$ 1,280	\$ 417,521	\$ 141,903
ADDITIONS				
<u>Fiscal Year 1994-95</u>				
Budgeted Revenues			1,649,293	515,094
Direct Entries to Fund Balance	441,570 ¹			
<u>Fiscal Year 1995-96</u>				
Budgeted Revenues			1,789,811	496,467
Direct Entries to Fund Balance			148,347 ¹	49,930
Total Additions	441,570	0	3,587,451	1,061,491
REDUCTIONS				
<u>Fiscal Year 1994-95</u>				
Budgeted Expenditures	68,430 ¹		1,303,267	456,423
Nonbudgeted Expenditures			10,572	12,965
Support to State of Montana	373,167			
Prior Year Expenditure Adjustments			763	2,554
Direct Entries to Fund Balance		1,280	421,605 ¹	18,684
Prior Year Revenue Adjustments	(27)		34,256	20,075
<u>Fiscal Year 1995-96</u>				
Budgeted Expenditures			1,534,287	493,997
Nonbudgeted Expenditures			(5,601)	(22,737)
Prior Year Expenditure Adjustments			1,249	
Nonbudgeted Prior Year Expenditure Adjustments			111,674	(13,825)
Prior Year Revenue Adjustments			970	8,873
Total Reductions	441,570	1,280	3,413,042	977,009

FUND BALANCE: June 30, 1996

\$ 0

\$ 0

\$ 591,930

\$ 226,385

¹ See note 5 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE
SCHEDULE OF TOTAL REVENUES & OTHER ADDITIONS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	Enterprise Funds	Internal Service Funds	Total
<u>Fiscal Year 1995-96</u>			
TOTAL REVENUES BY CLASS			
Charges for Services ¹	\$ 1,691,465	\$ 387,738	\$ 2,079,203
Sale of Documents and Merchandise	90,278	46,996	137,274
Miscellaneous	7,098	52,860	59,958
Total Revenues	<u>1,788,841</u>	<u>487,594</u>	<u>2,276,435</u>
Less: Prior-Year Revenue Adjustments	(970)	(8,873)	(9,843)
Actual Budgeted Revenues	1,789,811	496,467	2,286,278
Estimated Revenues	1,575,756	550,002	2,125,758
Budgeted Revenues Over(Under) Estimated	<u>\$ 214,055</u>	<u>\$ (53,535)</u>	<u>\$ 160,520</u>
BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS			
Charges for Services	\$ 217,435	\$ (3,394)	\$ 214,041
Sale of Documents and Merchandise	(9,728)	(103,000)	(112,728)
Miscellaneous	6,348	52,859	59,207
Budgeted Revenues Over(Under) Estimated	<u>\$ 214,055</u>	<u>\$ (53,535)</u>	<u>\$ 160,520</u>
<u>Fiscal Year 1994-95</u>			
TOTAL REVENUES BY CLASS			
Licenses & Permits ¹	\$ 1,080,350		\$ 1,080,350
Charges for Services	494,439	\$ 406,001	900,440
Sale of Documents and Merchandise	39,058	89,018	128,076
Miscellaneous	1,190		1,190
Total Revenues	<u>1,615,037</u>	<u>495,019</u>	<u>2,110,056</u>
Less: Prior-Year Revenue Adjustments	(34,256)	(20,075)	(54,331)
Actual Budgeted Revenues	1,649,293	515,094	2,164,387
Estimated Revenues	1,501,125	455,500	1,956,625
Budgeted Revenues Over(Under) Estimated	<u>\$ 148,168</u>	<u>\$ 59,594</u>	<u>\$ 207,762</u>
BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS			

Licenses & Permits	109,728		\$ 109,728
Charges for Services	39,392	\$ 76,026	115,418
Sale of Documents and Merchandise	(2,042)	(15,932)	(17,974)
Miscellaneous	1,090	(500)	590
Budgeted Revenues Over(Under) Estimated	\$ <u>148,168</u>	\$ <u>59,594</u>	\$ <u>207,762</u>

¹ See note 5 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SECRETARY OF STATE
SCHEDULE OF TOTAL EXPENDITURES & OTHER REDUCTIONS BY OBJECT BY PROGRAM
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	<u>Business & Government Services Program</u>	
	<u>Fiscal Year</u> <u>1995-96</u>	<u>Fiscal Year</u> <u>1994-95</u>
PROGRAM EXPENDITURES BY OBJECT		
Personal Services		
Salaries	\$ 916,267	\$ 805,888
Employee Benefits	250,477	237,398
Personal Services-Other	33,834	10,760
Total	<u>1,200,578</u>	<u>1,054,046</u>
Operating Expenses		
Services	421,217	356,128
Supplies & Materials	59,553	132,167
Communications	103,325	91,399
Travel	10,249	17,122
Rent	107,275	92,413
Utilities	1,287	1,346
Repair & Maintenance	25,885	13,231
Other Expenses	149,614	19,533
Goods Purchased for Resale	10,802	20,671
Total	<u>889,206</u>	<u>744,010</u>
Equipment & Intangible Assets		
Equipment	9,259	56,918
Total	<u>9,259</u>	<u>56,918</u>
Total Program Expenditures	<u>\$ 2,099,044</u>	<u>\$ 1,854,974</u>
PROGRAM EXPENDITURES BY FUND		
General Fund ¹		\$ 68,430
Enterprise Fund	\$ 1,641,609	1,314,602
Internal Service Fund	457,435	471,942
Total Program Expenditures	<u>2,099,044</u>	<u>1,854,974</u>
Less: Nonbudgeted Expenditures	(28,338)	23,537
Prior-Year Expenditure Adjustments	99,098	3,317
Actual Budgeted Expenditures	<u>2,028,284</u>	<u>1,828,120</u>
Budget Authority	2,110,508	1,842,848
Unspent Budget Authority	<u>\$ 82,224</u>	<u>\$ 14,728</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 37,385	\$ 492
Enterprise Fund	44,739	13,236
Internal Service Fund	100	1,000
Unspent Budget Authority	<u>\$ 82,224</u>	<u>\$ 14,728</u>

¹ See note 5 on page A-13

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1996

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the office incurs the related liability and it is measurable.

State accounting policy also requires the office to record the cost of employees' annual leave and sick leave when used or paid.

The office uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule presentation is in accordance with the policy of the Legislative Audit Committee. For audit reports issued after July 1, 1996 the Legislative Audit Committee approved a new financial schedule presentation for inclusion in agency audit reports. The schedules now include nonbudgeted revenue and expenditure activity and prior year revenue and expenditure adjustments for all financial schedules presented. In addition, financial activity for agency funds, if applicable to the agency, is included in the Schedule of Changes in Fund Balance and Property Held in Trust.

Notes to the Financial Schedules

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The office uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund. State law requires the office to transfer excess funds from the propriety fund to the general fund each fiscal year. The expenditures in this fund relate only to the administration of the Elections Bureau. (See note 5)

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. In prior years the office recorded the activity for the sales of the Administrative Registrar and Montana Administrative Registrar in this fund. The fiscal year 1994-95 beginning fund balance was transferred to the General Fund as requested by the Department of Administration.

Proprietary Funds

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. The Internal Service Fund includes activity of records management and the sales of Administrative Rules of Montana (ARM) to governmental agencies.

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the office finance or recover costs primarily through user charges; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Office Enterprise Funds include the sale of ARM to the public and activity for business and government services such as filing annual reports and articles of incorporation.

Notes to the Financial Schedules

- 2. Annual and Sick Leave**

Employees at the office accumulate both annual and sick leave. The office pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. In the Proprietary Funds, the increase in annual and 25 percent of the increase in sick leave are recognized as nonbudgeted expenses when the related liability is recorded at year end. The office absorbs expenditures for termination pay in its annual operational costs. The office had a liability of \$70,871 and \$98,862, respectively, at June 30, 1995 and at June 30, 1996.
- 3. Pension Plan**

Employees are covered by the Montana Public Employees' Retirement System (PERS). The office's contribution to PERS was \$51,348 in fiscal year 1994-95 and \$60,652 in fiscal year 1995-96.
- 4. Fund Balance**

The General Fund is a statewide fund. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.
- 5. Changes in Financial Reporting**

The Office of the Secretary of State had several changes between years in reporting financial activity. Below is an explanation of the changes.

 - License and permit revenue for corporations, trademarks, assumed business name, and notaries was classified as charges for services starting in fiscal year 1995-96 on the schedule of revenue. In fiscal year 1994-95 this revenue was reported separately as license and permits.
 - In fiscal year 1994-95 the office recorded election expenditures of approximately \$68,000 in the General Fund. In fiscal year 1995-96, election expenditures of approximately \$95,000 are recorded in the Enterprise Fund.
 - In fiscal year 1994-95 the office recorded a direct entry to fund balance to transfer excess Proprietary Fund revenue to the General Fund of approximately \$441,000. In fiscal year 1995-96 no transfer was made.

Notes to the Financial Schedules

- The direct entries to fund balance in the fiscal year 1995-96 are related to properly recording equipment in the Proprietary Funds.

Agency Response

**SECRETARY OF STATE
STATE OF MONTANA**



**Mike Cooney
Secretary of State**

**Montana State Capitol
PO Box 202801
Helena, MT 59620-2801**

October 11, 1996

Mr. Scott Seacat
Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, Montana 59620-1705

OCT 11 1996

Dear Mr. Seacat:

Thank you for the opportunity to respond to the financial compliance audit report on the Office of the Secretary of State for the two fiscal years ended June 30, 1996.

The financial compliance audit includes three recommendations. For each of the three, the office of the Secretary of State concurs with the recommendation of the audit report. Below, I have provided additional responses to each of these.

Recommendation 1 HB 576, passed by the 1995 legislature took the office of the Secretary of State off budget. We were directed to use the revenue received to provide all statutorily required services. Each of these services are separate and often require specific fees or are deemed free, the office of the Secretary of State adopted an office standard in which every service provided by the office was connected. Therefore, setting up a system to specifically track "fees commensurate with cost" was not feasible for services such as election assistance to the counties and the public which for which there is no fee. The office of the Secretary of State concurs that a explanation of fees commensurate with cost is needed. We will seek clarification from the 1997 legislature on ways to fund those services for which there is no fee charged.

Recommendation 2 Through legislative authority and guidance over the past four years, the Secretary of State's office has made great strides toward ensuring that it operates like a business. This includes long term planning for system development of programs that customers have requested. The office will seek legislation in the 1997 session that clarifies budget authority to utilize excess Proprietary Fund revenue for long term system development projects.

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Recommendation 3 The office of the Secretary of State recognizes that we must continue to improve our cash management procedure. For FY97, the office will let an RFP for assistance with the cash management procedure for the annual report process and will be examining a new receipting program. In addition, the office has joined with the Department of Revenue in their feasibility study on a central revenue processing center.

Thank you again for your time. I enjoyed working with your staff over the past several months and appreciate their thorough review of the Office of the Secretary of State and the timely reporting of their findings.

I look forward to discussing this further with the Legislative Audit Committee in November.

Sincerely,


mgmt\audit.101